MINUTES
of the
FIFTH MEETING
of the
NEW MEXICO FINANCE AUTHORITY OVERSIGHT COMMITTEE

October 6-7, 2015
Room 307, State Capitol
Santa Fe

The fifth meeting of the New Mexico Finance Authority (NMFA) Oversight Committee was called to order by Representative Jane E. Powdrell-Culbert, chair, on October 6, 2015 at 10:00 a.m. in Room 307 of the State Capitol in Santa Fe.

Present
Rep. Jane E. Powdrell-Culbert, Chair
Sen. Joseph Cervantes, Vice Chair
Rep. Sharon Clahchischilliage
Sen. Lee S. Cotter
Rep. Candy Spence Ezzell
Rep. Bealquin Bill Gomez
Sen. Ron Griggs
Sen. Richard C. Martinez
Rep. Andy Nunez
Sen. Michael Padilla
Rep. Patricio Ruiloba

Absent
Rep. David E. Adkins
Rep. Dona G. Irwin
Rep. Patricia A. Lundstrom
Rep. Stephanie Maez
Sen. Nancy Rodriguez
Rep. Patricia Roybal Caballero
Sen. John C. Ryan
Sen. William P. Soules
Rep. Monica Youngblood

Advisory Members
Rep. Alonzo Baldonado
Rep. Kelly K. Fajardo (10/6)
Sen. John Pinto
Rep. Debbie A. Rodella
Rep. Tomás E. Salazar
Rep. Sheryl Williams Stapleton

Sen. Sue Wilson Beffort
Sen. Jacob R. Candelaria
Rep. George Dodge, Jr.
Rep. Brian Egolf
Rep. Roberto "Bobby" J. Gonzales
Sen. Stuart Ingle
Rep. Sarah Maestas Barnes
Sen. Bill B. O'Neill
Sen. Mary Kay Papen
Sen. William H. Payne
Sen. Clemente Sanchez
Rep. Don L. Tripp

(Attendance dates are noted for members not present for the entire meeting.)

Staff
Lisa Sullivan, Staff Attorney, Legislative Council Service (LCS)
Jeff Eaton, Research and Fiscal Policy Analyst, LCS
Tessa Ryan, Staff Attorney, LCS

Guests

The guest list is in the meeting file.

Handouts

Handouts and other written testimony are in the meeting file.

Tuesday, October 6

NMFA Board Report

Robert P. Coalter, chief executive officer (CEO), NMFA, and John E. McDermott, NMFA board chair, reported as follows on September NMFA activity.

Loan and grant activity. Fourteen loans, more than usual for a one-month period, closed, and three grants were awarded. Ten of the loans were funded through the Public Project Revolving Fund (PPRF), three through the Water Project Fund and one through the Colonias Infrastructure Project Fund. Six of the 14 loans exceeded $1 million each. Three grants were made through the Local Government Planning Fund.

Other activity. The NMFA entered into a contract with a vendor to integrate a new bond banking and loan management system. The NMFA also approved an internal audit plan. The audit will begin in October. The NMFA intends, and is on track, to complete the audit in early November. Much of the change from September of last year in the NMFA's net financial position statement and revenues and expenses statement reflects recent increases in loan activity. Though the NMFA is below its monthly budgeted spending rate, that rate will soon increase when bills come due and staff travel increases.

Questions and Discussion

On questioning, the presenters and committee members addressed the following topics.

Loans. Zach Dillenback, chief lending officer, NMFA, who was in the audience, provided more detail about the PPRF loans to Los Alamos County, Eastern New Mexico University, the Jicarilla Apache Nation and the City of Bloomfield. Mr. Dillenback agreed to follow up with more detail, including uses and means of repayment, on the Jicarilla Apache Nation loan. A member commented that the loan seemed disproportionately large compared with the others made in the last five quarters. Mr. Dillenback explained that loans to tribal entities are calculated with more emphasis on net asset value than for those to nontribal entities; for the latter, tax revenue is usually the focus. In the case of the Jicarilla Apache Nation, the NMFA also analyzed the nation's cash flow and historic ability to manage debt service. Mr.

McDermott remarked that the board thoroughly vetted the proposed loan to the nation, and it considered that savings from its refinance would help secure repayment.

Staff statewide travel. Mr. Coalter said that NMFA staff will soon travel extensively around the state to meet with representatives of entities eligible for NMFA programs. A member requested that the NMFA notify legislators in advance of meeting in the legislators' respective districts. Mr. Coalter agreed to the request.

Other. Robert Brannon, chief financial officer (CFO), NMFA, who was in the audience, answered members' questions about the NMFA's accrued payroll expense and the effects on the NMFA of the Governmental Accounting Standards Board's Statement Number 65.

New Mexico Renewable Energy Transmission Authority (NMRETA) Report

Robert E. Busch, NMRETA board chair, recapped the history and purpose of the authority, gave a brief professional autobiography and talked about recent developments for the program. The New Mexico Renewable Energy Transmission Authority Act was signed into law in 2007. It established a program to primarily support the development of energy transmission lines to move the state's "landlocked" renewable energy supply to market. Mr. Busch, a retired engineer who served as the CFO of a large utility company in the eastern part of the United States, began his board service shortly after the program's inception. The NMRETA has managed to support several projects and has accomplished much, particularly in the last two years, including having entered into a public-private partnership with Clean Line Energy Partners to pursue the multibillion-dollar Western Spirit project. That project, currently under way, centers on harvesting wind energy in central New Mexico and transmitting it through a high-voltage line to the Four Corners region. Like with all such similarly scaled projects, it will take a long time to complete. Nonetheless, its developers have made notable progress in the last month, including having secured a tribe's agreement for a right of way.

After the last regular session, the governor line-item vetoed the recurring appropriation to the NMRETA. Shortly thereafter, the NMRETA board decided to suspend the NMRETA's operations, and the office planned for its closure on August 31. However, a week before that date, Clean Line Energy Partners stepped in and arranged to help fund the NMRETA's operations. Sometime in the two weeks after the date of this presentation to the committee, the board was planning to vote on whether to revive the NMRETA and continue participating in the Western Spirit project.

<u>Questions and Discussion</u>

On questioning, Mr. Busch and committee members addressed the following topics.

NMRETA board; right of way; the SunZia project; relationship to the NMFA. Mr. Busch indicated that: 1) in response to the appropriation veto, a governor-appointed board member submitted a letter of resignation but was later asked by the administration to rescind it; other appointed members probably will remain on the board; 2) the NMRETA operates under confidentiality agreements with developers and cannot disclose the name of the tribe through whose land the right of way was acquired; 3) he believes that the order from the federal Department of Defense takes care of the White Sands Missile Range issue encountered in the multibillion-dollar SunZia project's implementation; and 4) the NMRETA can conduct its own financing and therefore does not require the NMFA's services.

Proposed NMFA Rule Change

Mr. Coalter and Marquita D. Russel, chief of programs, NMFA, presented a proposal by the NMFA staff to amend the NMFA's PPRF rules that define eligibility for disadvantaged qualified-entity loans and that establish the maximum amounts those entities may borrow each year at the discounted rates. The proposal would also make technical changes to the PPRF program's rules. Ms. Russel noted that changes to PPRF program rules require approval by the committee and the NMFA board. She explained the rule-change process. First, the board considers the proposed changes and offers feedback. NMFA staff revises the proposal accordingly and presents it to the committee. NMFA staff then brings any committee-suggested revisions to the board. Ms. Russel further commented that the PPRF was established about 20 years ago, and its rules have been amended few times since then.

Ms. Russel outlined the PPRF rule-change proposals as follows. An entity with a median household income (MHI) of less than 80% — up from the current level of 75% — of the state's MHI would qualify for the 0% interest rate. Correspondingly, an entity with an MHI of between 80% and 100% of the state's MHI would qualify for the next-lowest rate. That rate would decrease from 3% to 2% or to an amount that the NMFA board determines. Lastly, each fiscal year (FY), an eligible entity could borrow at those rates as much as $500,000 — up from the current level of $200,000 — for infrastructure and $150,000 — up from the current level of $75,000 — for equipment. Correspondingly, the maximum amount that would qualify for the 0% rate or 2% rate would increase from $200,000 to $500,000.

<u>Questions and Discussion</u>

On questioning, the presenters and committee members addressed the following topics.

Interest rates and caps. Ms. Russel stated that: 1) NMFA staff arrived at several conclusions after exploring ways to make loans more affordable and use money more efficiently, and only the proposals presented required a rule change; 2) the PPRF loan parameters were established in 1999 and have not kept pace with market changes; 3) banks might disfavor the proposed changes because of their potential to discourage bank business, but that circumstance is inherent to the program's fundamental purpose; 4) like the committee, the NMFA board has questioned whether the discounted interest rate is set at an optimal level; 5) NMFA staff advises against using instead a variable rate tied to a defined benchmark because borrowers favor certainty in the loan rate; and 6) the proposal to authorize the NMFA board to change the rate is intended to allow for the timely response to substantial market changes. Mr. Coalter added that, if there were a rapid increase in interest rates, the program could better adapt if the NMFA board were allowed to unilaterally adjust the interest rate.

Members expressed reluctance to delegate to the NMFA board the authority to unilaterally adjust the discounted interest rate. They commented that: 1) even given the change's simplicity and the unlikelihood that the board would act arbitrarily, such a delegation might be inadvisable; and 2) in the absence of that delegation, the committee would have adequate opportunity to weigh in on rate adjustments.

A member remarked that the committee could consider variations on the proposed interest rate and corresponding loan cap amounts, such as: 1) a lower rate and a lower cap, to alter the balance in the existing net benefit distribution; 2) adjusting the caps respective to infrastructure and equipment to emphasize a policy preference for a particular investment type; or 3) increasing the MHI percentages further to expand eligibility for the discounted rates. Responding to the first suggestion, Mr. Coalter pointed out that the NMFA is proposing an increase in the discounted-rate loan cap amounts because buying power has diminished since 1999, when the current limits were established. The member responded by saying that an update that seeks only to align the caps to changes in the market assumes that the caps' initial level was and remains desirable.

MHI calculation. Ms. Russel explained that: 1) the Bureau of Business and Economic Research provides the NMFA with MHI data, which are derived from United States Census Bureau records; 2) to determine a community's MHI, the NMFA uses a five-year rolling average; and 3) an entity can challenge the NMFA's MHI determination and opt for an alternative survey process; this alternative is particularly useful in the cases of smaller systems or portions of jurisdictions. A member commented that using the average, rather than the mean, can at times yield a skewed profile of a community, since one outlying addend in the calculation can affect the result significantly.

Effects of changes. Ms. Russel indicated that: 1) the proposed rule changes would modestly increase the number of disadvantaged qualified-entity loans made and make it easier for those entities to comply with repayment terms by reducing loan interest amounts; 2) the NMFA believes that the measures are sustainable and will not jeopardize the PPRF's solvency; 3) there has consistently been money in the PPRF available for lending; and 4) the NMFA is not asking for an increase in lending capacity, and it is not changing other program policies. Referring to charts in the handout, Ms. Russel also delineated some counties and municipalities that the changes would affect.

Committee requests for changes. The committee requested NMFA staff, during the subsequent break, to revise the handout outlining the proposed rule changes to reflect the committee's requests for changes to the proposal. A member suggested that those changes include in the definition of "disadvantaged qualified entity" the measure that the NMFA uses to determine an entity's MHI.

Motion on rule change. After the lunch break, Ms. Russel explained the revised rule-change proposals, which were presented in two handouts. One handout showed the following changes from the original proposal: 1) no provision to allow the NMFA board to set a fixed interest rate; and 2) the definition of "disadvantaged qualified entity" would identify how the MHI is calculated and include the option for the NMFA to consider an alternative survey. The second handout showed an alternative to the first handout's first change. The alternative would allow the NMFA board to determine a fixed discounted interest rate based on market conditions. On a motion made and seconded, the committee approved without objection the rule changes shown on the first handout in their entirety.

City of Santa Fe Capital Projects Funded Through the NMFA

Oscar S. Rodriguez, director of finance, City of Santa Fe, Alan Hook, water resources analyst, City of Santa Fe, and Mr. Dillenback presented on the city's history of NMFA-funded projects. Mr. Dillenback noted that the city has closed on 32 funding agreements within four different NMFA programs at a total cost of over $215 million.

Mr. Rodriguez, who said he has been in his position for 10 months, described two of the city's recent PPRF loan projects. In 2014, the city borrowed $3.5 million to buy seven new buses. In 2015, it took out a loan to advance refund outstanding convention center debt. The refunding yielded a net present-value savings of over $4 million.

Mr. Hook highlighted some of the city's NMFA-funded water projects. Water project loans totaling $4 million and taken in 2010 and 2011 paid for integrated water infrastructure for the Buckman Direct Diversion water treatment plant. A 2011 water project loan improved the McClure and Nichols reservoirs that feed the Canyon Road water treatment plant. A 2013 drinking water loan was used to construct a solar photovoltaic system to reduce energy costs associated with the Buckman Direct Diversion. The system affords energy-cost savings.

Mr. Rodriguez and Mr. Hook noted that the city is considering refinancing one of its loans and has applied for water project funding for forest treatment and watershed protection of the areas around two reservoirs. Mr. Hook added that the city recently completed a prescribed burn, which will help protect the drinking water supply.

Questions and Discussion

On questioning, the presenters and committee members addressed the following topics.

City finances. Mr. Rodriguez summarized the state of the city's finances in light of recent news of its budget shortfall. He said that the city is grappling with a structural imbalance but that the city has enough cash to sustain itself for awhile and that the situation does not affect the city's debt plans or obligations.

Bus program. Mr. Rodriguez indicated that: 1) in the past, the city has secured some federal transportation money to buy buses, but such money is scarcer now; 2) the city council has talked about structuring the city's bus purchase debt service so that it does not outlive the bus's useful life; 3) when buses wear down, the city tries to sell or trade them or reserve them as backup units; 4) although the ridership rate is relatively low, the bus program is primarily meant to provide a service, not generate profits; and 5) some classes of riders are entitled to free or discounted rides.

Solar energy system. A member commented that the Buckman solar energy system financed with a drinking water loan seems like a worthwhile project but also questioned whether, considering the many serious, unmet water infrastructure needs throughout the state, it represents the best use of the money invested in it. The member pointed out that, each year, the amount of money available for water projects financed through the Water Project Fund falls short of the amount represented by requests for that financing. Mr. Dillenback noted that the project was pursued through a federal stimulus program initiative to encourage environmental protection. He added that the project's funding does not preclude the funding of any project pursued by an entity able to afford, and eligible for, a drinking water loan. The member: 1) praised the NMFA's recently expanded efforts to maximize the utilization of programs dedicated to water infrastructure financing; and 2) stressed the importance of both prioritizing water infrastructure needs and matching the entities with those needs to the most appropriate funding program.

Minutes

On a motion made and seconded, the minutes of the committee's August meeting were approved without objection.

Spaceport Authority Budget; Current and Potential Revenues; Welcome Center; Road; and Uses of Spaceport Tax District Increment

Christine Anderson, CEO, Spaceport Authority, and Richard Holdridge, Spaceport Authority board chair, updated the committee on the authority's capital and operations budgets, 2010 tax district bond expenditures, revenue, educational outreach, southern road and visitor experience.

Capital budget; 2010 tax district bond expenditures. Ms. Anderson reviewed the Spaceport Authority's capital budget and the authority's uses of 2010 gross receipts tax (GRT) bond revenue. The Spaceport Authority's capital budget consists of general fund and severance tax bond appropriations ($142.1 million) and revenue derived from a GRT increment assessed in Dona Ana and Sierra counties ($76.4 million). Most of the over-$14 million that remains from general fund capital appropriations and severance tax bonding is dedicated to paying for improvements to the southern road. The over-$1 million from GRT bond revenue must be spent before the end of the calendar year.

Operations budget. Ms. Anderson reviewed actual, estimated, projected and requested sources and uses of money in the Spaceport Authority's operations budget for the period from FY 2014 through FY 2017. FY 2015 and FY 2016 are years in which the Spaceport Authority will transition from having a high proportion of bond revenue to a high proportion of operations revenue. The large year-over-year increase in the FY 2016 operations budget is for increased marketing and sales, facility maintenance, aerospace operations and information technology support. In that budget's contractual category, much of the increased spending is for around-the-clock protective services. The Spaceport Authority will increase its marketing in FY 2016. Having received less in appropriations for supplemental revenue than it requested, the Spaceport Authority will cut back on its construction and equipment purchases.

Revenue. Ms. Anderson cited the Spaceport Authority's primary revenue sources, described the Spaceport Authority's efforts to increase revenue and highlighted some results of those efforts. Much of the Spaceport Authority's revenue comes from Virgin Galactic lease payments and user fees and general fund appropriations. To boost revenue, the Spaceport Authority is focusing on marketing and sales. So far, its efforts have resulted in a film shooting, business from new aerospace customers and a motorcycle event. The Spaceport Authority has ramped up efforts to attract more business from space launch, space testing, satellite ground station and unmanned aerial vehicle companies and business from tourism, film and corporate events, merchandise sales, virtual education and corporate sponsorships. Other revenue-generating possibilities include conference-hosting, corporate events, product video and photo shoots, airplane fly-ins, sporting events and weddings.

Educational outreach. The Spaceport Authority offers several educational opportunities for middle school, high school and college students. They include a real-time virtual classroom, live spaceport tours, payload launches and collaborative aerospace projects. The Spaceport Authority has reached out especially to sixth graders in Dona Ana and Sierra counties but seeks also to engage sixth graders throughout the state. Transportation costs often prohibit that wider outreach.

Southern road. Ms. Anderson described the two routes to the spaceport (the paved northern road and the unpaved southern road), the preference of most visitors and workers to approach the spaceport using the southern route, the deplorable condition of the southern road and the plan for rehabilitating it. The plan includes improving four county roads, three of which are in Dona Ana County. The county agreed to undertake the road project, while both Dona Ana and Sierra counties agreed to maintain it. The Spaceport Authority agreed to fund the road's construction and pay other costs. Its projected completion is August 2017.

Visitor experience. The Spaceport Authority offers visitors opportunities to explore the off-site visitor center, travel to the spaceport via shuttle and tour the spaceport property. The visitor center in Truth or Consequences, which opened in June, occupies a 1930s-era building leased by Follow the Sun Tours, LLC. The company has a licensing agreement with the Spaceport Authority to regularly offer tours. The center features videos and a variety of exhibits. The Spaceport Authority expects that visitor center attendance will greatly increase when Virgin Galactic starts flying and other spaceport-related activity picks up.

<u>Questions and Discussion</u>

On questioning, the presenters and committee members addressed the following topics.

Southern road; spaceport access. Members expressed concerns about the southern road still being unfinished and about the quality of its construction. Ms. Anderson and Mr. Holdridge indicated that they share the committee's frustration about the pace of progress. Ms. Anderson also said that: 1) archaeological work caused a project delay, but otherwise, the counties control the project's progress; 2) the two routes leading to the area around the spaceport existed before the spaceport was built; and 3) the legislature at that time appropriated money to pave the last 10 miles of the northern road. A member commented that the decision, which was steeped in politics, to pave the northern road rather than the southern road was intended to give preference to construction contractors based in the more northern part of the state.

Ms. Anderson explained that visitors are shuttled in because the Federal Aviation Administration prohibits cars from parking at the spaceport.

Sources and uses of revenue. Ms. Anderson answered a series of pinpointed questions about the Spaceport Authority's operations budget, marketing efforts and capital outlay requests. She mentioned that: 1) all spaceport property is on state land, and the Spaceport Authority pays rent to the State Land Office; 2) the Spaceport Authority also pays rent for an office in Las Cruces; 3) the capital outlay requests on page 34 of the handout are listed in priority order; 4) the Spaceport Authority would like to buy a prefabricated hangar, for which there would be high demand, to use for storage; 5) potentially, a customer could pay for the road to the hangar; 6) the Spaceport Authority projects that, in the future, the visitor center will attract about 1,000 people a month; 7) the visitor center is closed only on Tuesdays and Wednesdays; and 8) Virgin Galactic recently reaffirmed its commitment to launch from the spaceport, is in the process of building two spaceships and continues to pay its lease.

Spaceport competition. When asked about how the spaceport compares with other states' spaceports, Ms. Anderson indicated that: 1) there are 10 spaceports licensed in the U.S.; 2) other states are considering building spaceports; 3) New Mexico's spaceport stands out because it occupies 18,000 acres; is adjacent to White Sands Missile Range, which has 6,000 square miles of unrestricted air space; is remote; affords privacy; was built from the ground up; is situated amid an attractive landscape; has vertical launch capability; and has a long, wide runway for spacecraft and aircraft; and 4) the state's biggest competitors in the field are Texas and Florida.

Educational programming; county GRT. In response to questions about the spaceport's educational programming and Dona Ana and Sierra counties' financial commitments to the spaceport, Ms. Anderson stated that: 1) the Spaceport Authority has been in talks with the Albuquerque Public School District about hosting educational tours; 2) the Spaceport Authority does not manage the counties' 25% portion of revenues from the GRT increment; rather, the money is directed to those counties' school districts; 3) the spaceport's portion of the GRT revenue pays off bonds sold since 2009; 4) the Spaceport Authority may put to operational use any portion of its GRT revenue in excess of what is required to repay those bonds; 5) legislation was recently introduced to alter that arrangement, but the legislation failed; and 6) the excess money reduces the Spaceport Authority's need for state appropriations. Mr. Holdridge further explained that, at the spaceport's inception, the two counties voted to impose the GRT increment to repay the bonds and generate revenue for their use, which historically has been education-related. In all, he said, the increment generates about $6 million a year. David Buchholtz, a Spaceport Authority board member who was in the audience, added that the counties may choose to end the tax after the bonds expire, which, according to Mr. Brannon, who was also in the audience, will be in 2029. A member expressed frustration that Dona Ana County bears the brunt of the obligation but has so far not seen the promises that induced it — like job creation and a paved southern road — materialize. Furthermore, the member said, it is objectionable that the tax is not set to expire. The member added that the spaceport is primarily a state project, so the state should assume the costs resulting from unanticipated launch delays and that the counties' commissioners should appear before the committee to discuss the use of the spaceport's excess revenue. Ms. Anderson pointed out that the state contributed $142.1 million from the sale of severance tax bonds to the spaceport and that, throughout the course of its lease, Virgin Galactic will pay about $200 million to the Spaceport Authority. More revenue, she said, is coming from other customers.

Continued investment. A member recalled that, when the idea of a spaceport was introduced, legislators were lured by the prospects of revenue and jobs. Now, the member said, many doubt the spaceport's potential for success, are concerned about the many setbacks that have befallen the spaceport and question the wisdom of continuing to invest in a project with such a low return on investment. Another member acknowledged that, although Ms. Anderson did not influence the decision to establish the spaceport, and in spite of her commitment to the spaceport's success, much of legislators' frustration with the spaceport's slow progress is directed at her. Referring to recent legislation that proposed selling the spaceport, Mr. Holdridge remarked that, were the state to walk away from its spaceport customers, who have invested a lot in it, it would send the message to other prospective business partners that the state cannot be trusted. Ms. Anderson added her remarks, which included that: 1) New Mexico's spaceport has made more progress than other spaceports; 2) other states with spaceports envy New Mexico's facility and airspace; 3) other states that are pursuing spaceports see the venture as a long-term investment; 4) the private-sector leaders in the space industry believe firmly in the future of space commercialization; 5) the scale of the state's investment was appropriate for the scale of the venture, which could prove lucrative; 6) such commercial space pursuits are necessarily long-term investments, and it is unreasonable to expect profits from them to materialize quickly; and 7) the state should take a firm stance on whether to continue its investment and, if so, refrain from frustrating the Spaceport Authority's customer-recruitment efforts by waffling on its commitment.

The committee recessed at 3:55 p.m.

Wednesday, October 7

The committee reconvened at 9:30 a.m., with Representative Powdrell-Culbert chairing the meeting.

Water Trust Board (WTB) — Project Application Time Line Revisited; Proposed Policy Revisions

Tom Clifford, secretary of finance and administration and WTB chair, and Ms. Russel updated the committee as follows on the history of, and proposed revisions to, the water project financing program's application time line and program policies. Secretary Clifford noted that the NMFA staff has made strides in making the program more effective by aiming to produce a refined list of recommended projects in time for the session while still giving applicants enough time to first complete applications and then comply with regulatory requirements.

Program background. The Water Project Finance Act created the 16-member WTB, outlined five types of projects eligible for financing and empowered the board to develop program rules and select projects for funding. In 2013, the WTB heightened project-readiness requirements and made applying for financing a two-step process. To accommodate applicants' ensuing need for more application time, the WTB adjusted the program time line, which resulted in presenting to the legislature for its authorization an all-encompassing project list. In 2014, amid complaints from the legislature about the list not having been culled before legislative authorization was expected, the WTB and staff solicited public comment in a four-week period and worked on policy revision proposals with the goal of further improving the program.

Proposed policy changes. In addition to some technical changes not discussed, the NMFA proposes in its program policies to: 1) remove certain project-governance, financial-planning, water-accounting and technical-governance requirements considered unnecessary, redundant or overly burdensome; 2) incorporate certain prioritization criteria; 3) allow regional water associations to have up to 20%, versus the 50% and 5% figures applicable to other entity types, of an awarded grant's money unspent and still qualify for another award; 4) incorporate into the written policy certain existing practices related to borrowing capacity, loan repayment and loan security; 5) add the requirement that loans first be structured as construction loans and then convert to permanent loans; 6) delimit indirect project-cost funding eligibility; 7) add agencies on which the WTB may rely for technical expertise; 8) in response to what small entities cited as their biggest concern, allow MHI to be considered in determining the match requirement and allow applicants supported by rate-paying constituents to borrow, rather than pay up front, money to meet the local-match requirement; 9) for poorer entities, decrease the local match in proportion to MHI; and 10) publish more fully program requirements by project-category type.

Next steps. Ms. Russel said that the proposals would be presented to the WTB for review at its October meeting and that the NMFA expects to have a vetted project list ready for the legislature in January. Secretary Clifford said that the WTB was interested in the committee's feedback on the proposals. He also said that, once the WTB approves projects for funding in May, entities whose projects were chosen for funding can work with the State Board of Finance on the next steps toward securing money for the projects.

Questions and Discussion

On questioning, the presenters and committee members addressed the following topics.

Program parameters; costs to applicants and participants. Ms. Russel and Secretary Clifford answered members' questions about the program as follows: 1) the application solicits information about project management, but there is no requirement that an entity employ a manager exclusively to oversee the project; further, agency project management help is available; 2) the program features local-match and loan-component requirements; 3) capital outlay money cannot serve as the local match, since severance tax bond sales generate funding for both programs; nonetheless, securing such money for a project is valuable in that it can reduce the program amount requested; 4) the required loan component ranges from 10% to 40% and depends on the entity's ability to repay the loan; 5) if unforeseen circumstances arise, an entity's annual principal payment may be forgiven; such forgiveness has been granted fewer than 10 times since 2006; 6) a loan can be repaid over a period of up to 20 years at 0% interest; 7) as allowed by rule, the NMFA sets and assesses an administrative fee of .25%, which is .25% of the loan amount; 8) the NMFA policy proposals would help applicants control their costs by eliminating excessive requirements, but the requirement that applicants submit adequate planning documents would stand; and 9) grants from the Local Government Planning Fund can be used to hire people to plan projects and produce those documents. A member expressed support for the idea that entities contribute financially to increase their stake in projects. Another member pointed out that smaller entities have a relative disadvantage of scale in that certain fixed costs are inherent to every project. Lastly, a member proposed that the legislature fund the NMFA adequately so that the agency does not have to charge an administrative fee.

Application cycle; legislative review of project list. Ms. Russel indicated that the schedule for application submission and screening is in part as follows: 1) applicants will make presentations to the WTB on December 12; 2) the project management team will then decide which projects it recommends; and 3) the project review committee will recommend projects to the full board on January 4. Ms. Russel said that, in December, all that could be presented to the committee is a basic list of projects not yet qualitatively reviewed; Secretary Clifford added that the list of projects available in January will have been screened for everything but final regulatory approvals. Having expressed a desire to review a more refined list of projects before the legislative session, the committee discussed the possibility of meeting in December or in January.

Coordination in water project funding. Secretary Clifford noted that NMFA staff coordinates with other agencies' staff to help guide entities to appropriate water project funding opportunities; however, such coordination is often stymied by the complexity in those programs. Ms. Russel commented that the colonias and water project programs' application cycles were recently made to overlap to provide for enhanced coordination and to reduce project delay. Some members criticized the executive branch's having frustrated coordination efforts by presenting late in the last regular session a list of water projects for capital outlay funding.

Consideration of small-entity applicants. A member remarked that: 1) many rural entities' existing water systems are falling apart; 2) water is not a luxury that people in those communities can do without; 3) rural entities have trouble competing with urban entities for such things as water systems, in part because they rely on volunteers rather than professional staff to pursue needed projects; 4) meanwhile, many of those entities request from their legislators millions of dollars in funding assistance that cannot be secured; and 5) given these realities, the NMFA should actively reach out to small entities with big needs. Ms. Russel responded by saying that the policy proposals would remove smaller entities' biggest obstacles; they reflect efforts to make the process easier for small entities while still ensuring responsible investments and good governance. She added that the program still requires those entities to submit plans, but financial aid for that purpose is available. The member requested a table showing the acequias that have applied for, and have been either awarded or denied, program assistance. Another member remarked that it seems that the proposals will improve smaller applicants' access to funding.

Preference for projects "urgent to meet the needs of a regional planning area...". Several members argued that the meaning of "urgent", as used in the Water Project Finance Act, should be clarified. They also expressed concern about how a preference for regional projects might harm small entities with desperate water needs or conflict with their goals. A member pointed out that regional plans take a long time to develop, can quickly become outdated and might contain flaws. Secretary Clifford responded by saying that: 1) the statutory provision requires the WTB to give priority to projects that are part of long-term water plans; 2) nevertheless, smaller entities are still eligible for funding and can score high in the ranking; 3) the legislature may amend the act to target other priorities if it wishes; 4) the word "urgent" has been treated not as synonymous with "emergency", but rather as describing a project integral to a regional plan; 5) all projects suitable for the program require planning; if an emergency water-supply situation develops, an entity can seek emergency funding from the State Board of Finance; and 6) the conversation with small entities to identify remaining program barriers should continue. Ms. Russel noted that the meaning of "urgent" has made program administration more difficult and remarked that the efficiencies afforded by regionalization could benefit small entities.

Program reform. A member remarked that the legislature has in effect been taken out of the water project funding program's decision-making process. The WTB is heavily composed of executive-branch representatives, and it can manipulate project selection by putting more weight on factors it wishes to emphasize. Moreover, the project authorization bill in the recent past has consisted of an exhaustive, not pared-down, list of projects, which gives the WTB broad funding discretion. The member argued that the legislature should play a more active role in scrutinizing and amending the project authorization bill and should consider amending the Water Project Finance Act to make changes as it sees fit.

Proposed Legislation for the NMFA

Mr. Coalter and Ms. Russel presented bill drafts for the committee to review and to which it would respond. Mr. Coalter indicated that all the initiatives embodied in the bill drafts had been presented to the committee in the previous year except one: that related to the Economic Development Revolving Fund. It was agreed that the bills would be considered for sponsorship and endorsement at the next meeting.

$3 million appropriation to the Local Government Planning Fund (.202188.1SA). Mr. Coalter said that the appropriation would be used to make grants, mostly for $50,000 each, to local entities for preliminary engineering reports. He added that some entities that apply for the grants are eligible for only a portion of the maximum $50,000 grant amount.

$1.8 million appropriation for drinking water system financing (.202189.1SA). Mr. Coalter indicated that the appropriation would constitute matching funds for the federal Safe Drinking Water Act program. Ms. Russel added that the program requires the state to match 20% of the federal investment.

Public body ability to delegate decision-making authority on public security sales (.202187.1SA). Michael Zavelle, chief financial strategist, NMFA, who was in the audience, gave some background on the proposal, which the committee endorsed last interim. It originated as a private-sector initiative that affects the NMFA. A bill embodying the concept was first introduced in 2013 and has been substantially revised since then. Last session, the senate passed the bill, but time ran out before it could clear the house. A member noted that the House Ways and Means Committee eventually passed it, and throughout the legislative process, no one voted "no" on the bill.

Extended suspension of requirement for legislative authorization of non-state Statewide Economic Development Finance Act (SWEDFA) projects (.202190.3SA). Ms. Russel noted that the proposal was discussed at the August meeting. She explained that the bill would extend the suspension, which is set to expire in 2016, on legislative authorization for non-state SWEDFA projects. The measure, she said, would help the NMFA comply with federal requirements for spending within a specific time frame.

PPRF project authorization. Mr. Dillenback, who was in the audience, noted that: 1) the bill would authorize for three years the funding of 140 listed projects, each of whose cost is $1 million or more; 2) a project's inclusion on the list does not guarantee its funding; 3) the bill is subject to amendment; 4) projects with a valid unexpired authorization are not on the list; 5) the Department of Military Affairs project (number 33 on the list) consists of proposed improvements to the National Guard of New Mexico building in Santa Fe; 6) the Department of Transportation project (number 34) represents improvements to facilities primarily in Santa Fe, but otherwise throughout the state; and 7) in part, whether an entity can pledge sufficient security determines its eligibility for a PPRF loan. Members: 1) pointed out a technical inaccuracy in the bill; 2) commented that the project descriptions are too general, particularly given that legislators receive capital outlay requests for projects whose inclusion in the bill is difficult to determine because of the descriptions' vagueness; 3) remarked also on the flexibility afforded applicants by that vague language; and 4) requested more specific information about the projects. Mr. Coalter agreed to provide the additional information.

Adjournment

There being no further business before the committee, the fifth meeting of the NMFA Oversight Committee adjourned at 12:11 p.m.